

 <p><b>OFFICE OF THE STATE INSPECTOR GENERAL</b> <b>GENERAL DIRECTIVE</b></p>	<b>Effective Date</b> <b>October 1, 2023</b>	<b>Number</b> <b>001</b>
	<b>Supersedes</b> <b>March 16, 2015</b>	
<p><b>SUBJECT</b></p> <p><b>OVERSIGHT OF STATE &amp; SPECIFIC NONSTATE AGENCIES' INTERNAL AUDIT PROGRAMS</b></p>	<b>Authority</b> <i>Code of Virginia § 2.2-307</i>	
	<b>Attachments</b> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
<b>VLEPSC Standards:</b> N/A		
<b>CALEA Standards:</b> N/A		
<p><b>I. POLICY</b></p> <p>The Virginia Acts of Assembly Senate Bill 1477, Chapter 871 and House Bill 2076, Chapter 798 effective as of July 1, 2012, and <i>Code of Virginia § 2.2-307 et seq.</i>, established the Office of the State Inspector General (OSIG) to be headed by a State Inspector General. Additionally, <i>Code of Virginia § 2.2-3009 et seq.</i> addresses OSIG's administration of the Fraud and Abuse Whistle Blower Reward Fund. OSIG is charged with the following:</p> <ul style="list-style-type: none"> <li>A. Investigating complaints alleging fraud, waste, abuse, or corruption by an executive branch state agency, non-state agency or officers, employees or contractors of those agencies.</li> <li>B. Administering the Fraud and Abuse Whistle Blower Rewards Fund.</li> <li>C. Overseeing the State Fraud, Waste and Abuse Hotline.</li> <li>D. Conducting performance reviews of state agencies.</li> <li>E. Coordinating and requiring standards, and providing training for the state's internal audit functions.</li> <li>F. Performing inspections and responding to complaints of abuse, neglect or inadequate care within state behavioral health and developmental services facilities</li> </ul>		

and of providers, to include licensed mental health treatment units in state correctional facilities.

- G. Reviewing operations of the Virginia Tobacco Region Revitalization Commission.
- H. Reviewing critical incident data and operations of the Department of Corrections and the Department of Juvenile Justice related to quality of care, seclusion and restraint, medication usage, abuse and neglect, staff recruitment and training, and other systemic issues.

## **II. PURPOSE**

The purpose of this general order is to provide information on OSIG's oversight of internal audit programs.

## **III. OSIG REPORTING MANDATE**

### *A. Code of Virginia §2.2-313. Reports.*

1. [A.] The State Inspector General shall prepare an annual report to the Governor and the General Assembly summarizing the activities of the Office. Such report shall include, but need not be limited to:
  - (i) A description of any significant problems, abuses, and deficiencies related to the management or operation of state agencies or nonstate agencies during the reporting period;
  - (ii) A description of the recommendations for any corrective actions made by the Office during the reporting period with respect to significant problems, abuses, or deficiencies identified;
  - (iii) A summary of matters referred to the attorneys for the Commonwealth and law enforcement agencies and actions taken on them during the reporting period;
  - (iv) Information concerning the numbers of complaints received and types of investigations completed by the Office during the reporting period;

(v) The development and maintenance of internal audit programs in state agencies and nonstate agencies; and

(vi) The results of any state agency performance reviews, including a summary of any findings or recommendations for improving the efficiency of state agencies.

2. [C.] The State Inspector General shall keep the appropriate Secretaries advised of the Office's activities as they relate to each respective Secretary on at least a quarterly basis, and of any significant problems, abuses, or deficiencies relating to the management or operation of a state agency within each such Secretary's area of responsibility. However, when the State Inspector General becomes aware of significant problems, abuses, or deficiencies relating to the management or operation of a Secretary's office, the State Inspector General shall report the same immediately to the Governor's Chief of Staff.

#### **IV. OSIG PHILOSOPHY**

- A. The State Inspector General, in consultation with the Chief of Staff to the Governor, legislators, OSIG staff, and other state officials, and after review of a Department of Planning and Budget study, has determined that under normal circumstances OSIG will not perform internal audit functions.
- B. Within the jurisdiction defined in the *Code of Virginia*, OSIG will oversee executive branch and specific nonstate agencies' internal audit programs to ensure internal audit functions (list is not all-inclusive):
  1. Are reporting to the proper management level to conform with IIA standards to preserve maximum independence.
  2. Are following appropriate standards, as evidenced by compliance with periodic quality assessment reviews (QAR).
  3. Are operating at an acceptable performance level in order to:
    - a. Produce risk-based audit plans.
    - b. Provide acceptable agency coverage.

- c. Produce appropriate reports for management, with an effective follow-up process in place to ensure corrective action is taken.

C. OSIG's oversight of Commonwealth internal audit programs will:

1. Ensure adequate independence of the internal audit function.
2. Ensure that the function is adding value through transparent accountability regarding stewardship of governmental funding and agency actions.
3. Provide an avenue for internal auditors in the event of a real or perceived incident of undue influence by agency management.
4. Provide assistance, counsel, and guidance to internal audit functions, upon request.

**V. OVERSIGHT**

A. OSIG intends to periodically gather data from internal audit functions concerning the five areas below, review this data, consider the data as inputs into OSIG's risk assessment of specific state functions, and report on any issues as needed.

B. To accomplish appropriate oversight of the Commonwealth's internal audit programs, the State Inspector General is implementing the following requirements through this directive:

1. Institute of Internal Auditors Standards
  - a. All executive branch state agencies and institutions with internal audit functions shall adopt and prescribe to the Definition of Internal Auditing, Code of Ethics, and International Standards for the Professional Practice of Internal Auditing (Standards), as promulgated by the Institute of Internal Auditors (IIA), and should be included in the function's internal audit charter (Standards. 1000 – Purpose, Authority, and Responsibility).
  - b. As needed, internal audit functions may adopt additional standards, such as the United States Government Accountability Office's

(GAO) Generally Accepted Government Auditing Standards (GAGAS), in order to carry out specifically required audits.

- c. Chief Audit Executives (CAEs) may request an exception from the State Inspector General regarding the IIA Standards; however, the exception process is not encouraged, and each request will be evaluated on a case-by-case basis.
  - d. A copy of each internal audit function's charter and audit committee charter, if applicable, should be submitted to OSIG any time it is significantly or materially modified.
  - e. Quality Assurance and Improvement Program (QAIP) – CAEs must develop, implement, and maintain QAIPs to ensure that internal audit programs conform with the IIA Standards. The QAIP includes both internal and external assessments.
    - 1) Internal assessments include ongoing monitoring of the performance of the agency's internal audit activity and periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.
    - 2) External assessments (either full external assessment or an internal self- assessment with independent validation) must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.
    - 3) Each CAE shall submit a dated copy of the last external quality assessment review as completed. If the review identified findings/issues, or the rating indicated nonconformance, the CAE should provide additional information regarding current status and corrective actions taken.
2. Annual Audit Plans, with any Modifications, and Risk Assessments
- a. All executive branch state agencies and institutions with internal auditing functions shall submit detailed work plans by September 30

of each year. Any significant modifications to the audit plan shall be submitted as completed.

- b. The CAE shall also submit the risk assessments used to develop the annual audit plan.

3. Final Reports on Audits, Special Projects, and Investigations

- a. All executive branch state agencies and institutions with internal auditing functions shall submit final reports on audits, special projects, and investigations.
- b. For special projects and investigations that are: (i) initiated by agency or institution personnel, and (ii) the results are not presented to either the Board of Visitors or agency management, a summary can be provided to OSIG to include the following:

- 1) Occurrence of investigation/special project.
- 2) Summary of results.
- 3) Listing of reportable findings related to internal control or procedural weaknesses identified.

The following items are not required for summary reporting:

- 4) Names of personnel under investigation and corresponding recommendations specific to personnel actions.
- 5) Identification of the division or area investigated within the agency or institution.
- c. OSIG will not require reports or summaries to be submitted for special projects and investigations initiated by agency or institution personnel where the results of the review were unsubstantiated.
- d. OSIG will not require reports or summaries to be submitted for special projects and investigations excluded under the Freedom of Information Act (FOIA) in accordance with *Code of Virginia* § 2.2-3705.7(2).

4. Status of Corrective Actions Taken

All executive branch state agencies and institutions with internal audit functions shall submit reports or other forms of correspondence, e.g., internal memoranda, letters, spreadsheets, etc., detailing the status of findings and recommendations resulting from internal audits, special projects or investigations.

5. Internal Auditor Training

- a. OSIG will continue to establish training programs for the internal audit community; however, this does not preclude CAEs from arranging and participating in their own training activities.
- b. CAEs should take an active role in determining the training courses offered and in encouraging their staff to participate in training programs.

**VI. OTHER OSIG DUTIES**

- A. As OSIG carries out its statutory requirement to conduct performance reviews of executive branch agencies, OSIG may include an assessment of the internal audit program and the internal control framework of an agency in its performance review objectives.
- B. As additional topics arise, the State Inspector General will issue additional Directives. Questions or comments regarding this Directive should be addressed to the State Inspector General.

**VII. SENDING OSIG INFORMATION**

- A. All required information should be emailed to: [osig@osig.virginia.gov](mailto:osig@osig.virginia.gov).
- B. Acceptable forms of electronic submission include: Microsoft Word (.doc, .docx), Excel (.xls, .xlsx), and portable document format (.pdf). Sensitive documents can be transmitted using an agreed upon method.
- C. The CAE should contact OSIG for guidance if unsure whether a particular document requires submission.

**VIII. SUMMARY OF KEY SUBMISSION DATES**

	<b>Audit Item</b>	<b>Due to OSIG</b>
1	<ul style="list-style-type: none"> <li>• Audit Charter(s) – Internal Audit, Audit Committee.</li> <li>• Significantly modified audit charter.</li> </ul>	Upon publication or after presentation to Board of Visitors.
2	<ul style="list-style-type: none"> <li>• Most recent external quality assessment review, as well as corrective action plans.</li> </ul>	Upon publication or after presentation to Board of Visitors.
3	<ul style="list-style-type: none"> <li>• Current Annual Audit Plan.</li> <li>• Modifications to Annual Audit Plan.</li> <li>• Future Annual Audit Plans.</li> <li>• Current Risk Assessment.</li> <li>• Risk Assessments - updated (if prepared).</li> <li>• Comparison of Audit Plan with Actual Accomplishments (if prepared).</li> </ul>	September 30 of each year or after presentation to Board of Visitors. Risk assessments may be submitted in a spreadsheet format or in a word format and should detail methodology used in risk assessment to develop audit plan. Modifications to audit plans can be submitted on a quarterly basis showing audits performed during that quarter rather than in a year-end comparison. Documents that are prepared for the Board of Visitors to clarify the risk assessment process or audit plan should also be submitted to OSIG.
4	<ul style="list-style-type: none"> <li>• Audit reports to include those related to planned audits.</li> </ul>	Upon publication to agency management or after presentation to the Board of Visitors. Verbal findings or insignificant findings do not have to be submitted to OSIG unless CAE submits to President, Agency Head, or Board of Visitors.
5	<ul style="list-style-type: none"> <li>• Special projects and internal investigations.</li> </ul>	Upon publication to agency management or after presentation to the Board of Visitors. If they are not presented to Board of Visitors or Agency management then a listing of substantiated



		cases and resulting findings may be submitted in a summary format at the end of the fiscal year.
6	<ul style="list-style-type: none"> <li>• Status of Corrective Actions.</li> </ul>	As completed. Status of Corrective Actions do not have to include personnel specific, verbal or insignificant findings unless CAE submits them to President, Agency Head, or Board of Visitors. All significant findings should be listed and tracked regardless of whether they result from an audit, special project or an investigation. Corrective Actions do not have to include findings that are protected under FOIA exclusions in accordance with <i>Code of Virginia</i> § 2.2-3705.7(2).

**IX. REVIEW DATE**

This procedure shall be reviewed and updated as needed no later than October 1, 2024.



**MICHAEL C. WESTFALL**  
State Inspector General